



ADVISOR



TEACHERS, EMPLOYEES, PUBLIC, STATE POLICE AND JUDICIAL

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SERVING OVER 300,000 MEMBERS

September 2007

RSA's Largest Industrial Loan

Governor Bob Riley and Greg Aziz, Chairman and CEO of National Steel Car of Canada, announced the formation of National Alabama Corporation to be located in The Shoals. The new railcar manufacturing plant will be one mile in length and occupy a 640-acre site. The plant will produce 8,000-10,000 rail cars per year and employ approximately 1,800 workers.



The RSA provided the bridge financing—RSA's largest industrial loan—of up to \$350 million at 8.5% interest for up to three years. The permanent financing will most likely be in the form of "GO Zone Bonds" which were given by the federal government to the three states damaged from Hurricane Katrina.

Congratulations to The Shoals, and a very special thanks to Governor Riley and U.S. Congressman Bud Cramer for their outstanding efforts and leadership in moving Alabama forward.

The Summary

By David G. Bronner

In the July and August *Advisors*, I attempted to outline in simple terms the financial problems facing the RSA when debate on the 2009 budgets takes place during the 2008 Regular Legislative Session early next year. In case your dog ate those copies, let me summarize where the RSA stands.

I believe it is imperative to immediately begin discussing new funding sources to raise revenue for the state's General Fund, which funds all state services other than education. Next spring our elected officials will face one of the most serious funding situations I have seen in the last three decades. With pension and health insurance costs rising and decades of inadequate funding for state services, the problem has finally come home to roost.

TRS pension costs, which include early cost estimates associated with an active member salary increase of 7%, will increase \$35 million in the 2009 budget (starting Oct. 1, 2008) from \$732 million to \$767 million. ERS pension costs, including a 3.5% raise, will increase \$25 million from \$157 million to \$182 million. PEEHIP (education employees' health insurance), currently at \$934 million for the 2008 budget, will be approximately \$1 billion when numbers are finalized in December.

Most importantly, the billion dollar number needed for 2009 health care costs does not include the \$15 billion unfunded liability for PEEHIP retiree health care that the RSA will begin reporting because of new accounting rules instituted by the Governmental Accounting Standards Board. Alabama could risk a lower credit rating by not complying. If the \$15 billion debt is amortized over a 30-year funding period, \$1.08 billion would be needed. Likewise, the

State Employees' Health Insurance Plan (SEIB) has a \$5 billion debt.

Alabama is not alone in accounting for retiree health care liability as every state has the same problem. For instance, New Jersey has a \$58 billion debt for retiree health care. They would need to set aside \$6 billion a year to make up for all the years of zero contributions beyond the pay-as-you-go method everyone used in the past, according to the *New York Times*.

I encourage the Governor and the Legislature to form a "Blue Ribbon Committee" to examine these problems in the fall in order to have a plan for the State of the State Speech in 2008.

REFUSING TO INVEST IN YOURSELF

TAXES PER PERSON Source: *The Birmingham News*

Alabama residents pay less in taxes than people in most other states.

State and local taxes per person, fiscal year 2005

TOP FIVE	New York	\$5,752
	Connecticut	\$5,398
	Wyoming	\$5,251
	New Jersey	\$4,890
	Massachusetts	\$4,470
National median		\$3,387
BOTTOM FIVE	South Carolina	\$2,779
	South Dakota	\$2,715
	Tennessee	\$2,685
	Mississippi	\$2,575
	ALABAMA	\$2,569

State and local taxes per person as a percentage of income, fiscal year 2005

TOP FIVE	Wyoming	21.94%
	New York	20.43%
	Hawaii	17.33%
	Alaska	16.89%
	Maine	16.77%
National median		14.40%
BOTTOM FIVE	Colorado	12.42%
	South Dakota	12.38%
	Tennessee	12.16%
	ALABAMA	12.14%
	New Hampshire	11.72%

Note: The fiscal year for most states ended June 30, 2005. For Alabama, it ended Sept. 30, 2005.

Source: Based on information from the U.S. Census Bureau

California's Rising Retiree Health Care Costs

Source: *Sacramento Bee*

Teachers are taking an increasing amount of money out of their own wallets to cover the cost of health care in retirement—and that trend will escalate, according to a survey by the California State Teachers' Retirement System (CalSTRS)...Thousands of California educators have seen school districts pare or even eliminate retiree health benefits in a recent survey, presented to a special Public Employee Post-Employment Benefits Commission.

The survey results will come as another burr under the saddle to the state's teachers, who frequently contrast their health benefits to those offered by the California Public Employees' Retirement System. That pension agency manages a \$5 billion health care program for 1.2 million state and local government employees, including non-teaching workers....

Faced with surging health care costs, Lee Jernigan scaled back vacation travel and sold his 24-foot recreational trailer. Since retiring in 1988, his teacher's pension check couldn't keep pace with the steady rise in insurance premiums, which more than doubled to \$842 a month. "Our premiums were more than we can handle. We were finding we had to cut back on a lot of things," said Jernigan, an 83-year-old retired junior high math and science teacher and school administrator.

Medical benefits have eroded as medical inflation surged and new accounting standards force districts to list on their books future obligations for retiree health benefits....A similar accounting mandate for private companies led to a dramatic cutback in retiree health benefits in the early 1990's. For example, 66 percent of employers with at least 200

workers offered health coverage for retirees. The rate plunged to 46 percent in 1991 and had declined to 35 percent by 2006, according to the Henry J. Kaiser Family Foundation....

Jack Ehnes (CEO, CalSTRS) reported the fund's survey found in 2006 that only 14 percent of school districts pay for health benefits for retired teachers after age 65, down from 22 percent in 2003. Roughly, 62 percent of retirees had to pay for their own health coverage, including supplemental Medicare programs. That compares with 40 percent in 2003....In California, health coverage for teachers is provided separately through the state's 1,110 individual school districts. On average, teachers retire at age 61. That means those without employer health benefits must pay for their own insurance until they become eligible for Medicare...."

Lawsuit Says Teachers Are Overcharged on Annuities

By Gretchen Morgenson, *The New York Times*

A lawsuit filed last month in federal court in Washington State contends that the National Education Association breached its duty to members by accepting millions of dollars in payments from two financial firms whose high-cost investments it recommended to members in an association-sponsored retirement plan.

The case was filed on behalf of two N.E.A. members who had investments in annuities sold by Nationwide Life Insurance Company and the Security Benefit Group. It contends that by actively endorsing these products, which carry high fees, the N.E.A., through its N.E.A. Member Benefits subsidiary, took on the role of a retirement plan sponsor, which must put its members' interests ahead of its own.

By taking fees from the two companies whose annuities N.E.A. Member Benefits

recommended to its members, the N.E.A. breached its duty to them, the suit contends....From 1991 to 2000, Nationwide was the exclusive N.E.A. plan provider. The company sold its N.E.A. Valuebuilder accounts, with more than \$860 million assets, to Security Benefit Life Insurance Company for \$72 million in 2000, the suit said.

Since 1991, the suit said, N.E.A. members have invested more than \$1 billion in the Valuebuilder plan. The fees levied in the Nationwide and Security Benefit annuities "far exceeded" those of comparable retirement vehicles available elsewhere, the suit said. The fees in one of the annuities recommended for the Valuebuilder plan reached 10.62 percent, according to the suit, making it exceedingly difficult for investors to make money in the plan...."



RTJ Golf Trail TOP 10 STATES

To make reservations on the Trail, most Alabama golfers merely call the course they want to play, while most out-of-state golfers use the RTJ 800 number (800.949.4444) for multiple dates. From January 1 to July 31, golfers from every state except West Virginia have visited the Trail! We want to find a West Virginia golfer to visit us!

The top 10 states calling our 800 number are: 1. Georgia, 2. Texas, 3. Florida, 4. Tennessee, 5. Illinois, 6. Ohio, 7. Kentucky, 8. Alabama, 9. Indiana, and 10. California.

Alabama Features Three of the Country's Best Spas

If the stresses of a hectic life are getting you down, you won't have to travel far to pamper yourself in one of the country's best spas. In fact, three of them are located in Alabama, more than in New York, Hawaii, New Mexico and 43 other states. Alabama is ranked 4th in the country by BestSpas USA: The Guidebook to Luxury Resort, Hotel and Destination Spas for the number of spas in the country highlighted. All three spas are part of the Resort Collection on Alabama's Robert Trent Jones Golf Trail and are located at the Marriott Shoals Hotel & Spa in Florence; Renaissance Ross Bridge Golf Resort & Spa in Hoover and the Grand Hotel Marriott

Resort, Golf Club & Spa in Point Clear. These resorts are owned by the Retirement Systems of Alabama.

In addition to praise from BestSpas USA, all three resorts are consistently ranked as some of Marriott's best spas in North America. Two additional spas will be opening in the Resort Collection of the RTJ Golf Trail in 2008: the Battle House Spa in Mobile and the spa at the Renaissance Montgomery Hotel & Spa at the Convention Center.

For more information on the Resort Collection and its spas, visit www.pchresorts.com. A complete national list of spas honored can be found at www.bestspasusa.com.

A Big National Problem

From 2005 to 2030, the 65 and older population will nearly double to 71 million. Its share of the population will rise from the current 12% to 20%.

Social Security, Medicare and Medicaid (programs that serve the elderly) currently exceed 40% of the \$2.7 trillion federal budget. By 2030, the Congressional Budget Office says the share could hit 75% of the budget. The result: a political impasse.

Editorial: Mobile Press Register

Alabama's Judicial elections may rate as the shabbiest in the country, but there's no doubt they're the most expensive.

A national report put the total cost of the 2006 state Supreme Court races at \$13.4 million. That's almost four times more than candidates in Texas—the second-place state—raised in their campaigns.

Alabama puts a very high price tag on seats on its highest court. Sadly, some of the candidates travel a low road trying to get there, dealing out cheap shots in volley after volley of television ads. According to the Justice at Stake Campaign, the non-partisan group that compiled the report on judicial elections, last year Alabama voters were barraged by nearly 18,000 television ads promoting and attacking Supreme Court candidates.

Most of those ads were aired in the no-holds-barred battle for chief justice. Sue Bell Cobb, who raised \$2.6 million in the general election and won the prize, later said the amount of

money spent on her race was "indecent." She's half-right: The money itself doesn't cause the indecency, but the spectacle of high-dollar, low-road campaigning demeans the judiciary and calls the independence of judges and Supreme Court justices into question.

The process of choosing judges shouldn't be a bidding war between powerful, well-heeled interests such as business groups and plaintiffs' attorneys. Alabama needs to raise the dignity of the judiciary by adopting the "Missouri plan" for judicial selection.

Under the Missouri plan, a blue-ribbon panel screens candidates and presents a list of its top choices to the governor, who makes the appointment. Incumbents are held accountable for their performance by having to stand for retention elections.

Alabama has become a case study in how not to select judges. It's time the Legislature cleaned up this embarrassing and expensive scene."

LGPA + RTJ = Prattville



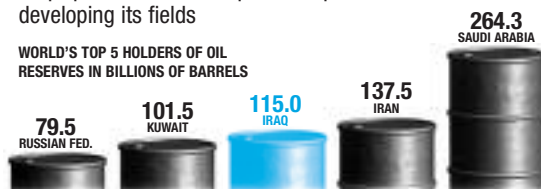
The top five money leaders on the 2007 Ladies Professional Golf Association (LPGA) Tour have committed to play the inaugural Navistar LPGA Classic in September at the Prattville location on the Robert Trent Jones Golf Trail. The full field event will be held September 27–30 on the Senator Course at Capitol Hill.

Players scheduled to play in the Navistar LPGA Classic include Lorena Ochoa of Mexico, the leading player on the tour; U.S. Women's Open Champion Cristie Kerr, Hall of Fame Golfer Karrie Webb; South Korea's Se Ri Pak; Natalie Gulbis of the United States and more than 100 of the LPGA's top players. A complete list of players and more information on the tournament can be found at www.navistarlpgaclassic.com.

Sleeping giant

Iraq's potential as an oil power requires developing its fields

WORLD'S TOP 5 HOLDERS OF OIL RESERVES IN BILLIONS OF BARRELS



Source: BP Statistical Review of World Energy, 2007

(Editor's Note: U.S. has 4% of world's oil reserves, but consumes 25%!)

ENJOY YOUR FALL
A Special Deal
 FOR RSA MEMBERS

The Battle House, A Renaissance Hotel – Mobile

\$79 Sept. 1–4, 9–15, 22–24, 28–30 • Oct. 1–4, 7–12, 20–31 • Nov. 1–13, 16–20, 26–30

Riverview Plaza – Mobile

\$69 Sept. 1–3, 10–17, 23–27, 30 • Oct. 1–4, 7–10, 17–18, 29–31 • Nov. 3–6, 15–29

Marriott Grand – Point Clear

\$79 Sept. 3–7, 12–13, 26, 30 • Oct. 1–5, 21–24, 28–30 • Nov. 3–4, 7–15, 20, 24–26, 30

Marriott Shoals – Florence

\$69 Sept. 8–13, 20–22, 28–30 • Oct. 5, 11–13, 18–21, 25–27 • Nov. 4–6, 11–14, 24–27

Renaissance Ross Bridge – Hoover

\$79 Sept. 3, 7–18, 23–25, 27–30 • Oct. 10–15, 18, 21–25, 28, 30–31 • Nov. 4–6, 9–13, 15–20, 24–30

Opelika Marriott

\$69 Sept. 2–6, 9–12, 16–19, 23–24, 27, 29–30 • Oct. 1–3, 7–8, 12, 14, 21, 28–31 • Nov. 1, 4–5, 11, 15–22, 25–30

Prattville Marriott

\$69 Sept. 2–5, 8–15, 21–23 • Oct. 1, 4, 7–9, 13, 18, 21–22, 25, 28, 30–31 • Nov. 1, 4–8, 10–18, 20, 22–29

*Book early because the rooms are limited at these special rates.
 These rates are not applicable to groups or conventions.*

Code for hotels except Riverview: RABM, 800-228-9290 / Riverview: RABM, 866-749-6069

**RTJ Golf Trail is
 Alabama's Top Attraction**

MONTGOMERY, ALA — More than 500,000 golfers played the Robert Trent Jones Golf Trail last year, ranking the Trail number one in attendance among all Alabama tourism attractions that charge admission, according to the Alabama Bureau of Tourism and Travel.

The Trail is a network of 24 public golf courses located along the state's major roadways. Approximately 40% of the golfers that play the Trail come from out of state. The Trail has ten locations from North Alabama to Mobile and has grown to include a collection of resort hotels and spas.



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**"The Navistar LPGA Classic" with the top 5 Money Leaders
 The Robert Trent Jones Golf Trail – Prattville
 See You September 27–30 at Capitol Hill**